



# Economic Update

March 2017

## Summary

- 2 **Global** – World GDP expansion is forecast to pick up to 2.8% in 2017, from 2.5% in 2016, on the back of stronger growth in the US and in large emerging markets.
- 3 **Eurozone** – The fault lines that divided eurozone growth into a relatively strong North and a comparably weak South are largely disappearing this year, as Southern countries are catching up.
- 4 **Advanced Markets** – Economic growth in the US and the UK is anchored by strengthening labour markets. The US outlook for 2017 is robust, but in the UK, higher inflation and political uncertainty will increasingly weigh on growth.
- 5 **Emerging Markets** – Growth figures for emerging markets are generally improving this year as a number of key countries are forecast to emerge from recession. However, the Trump presidency poses significant downward risks to some emerging markets.
- 6 **Credit and insolvencies** – The corporate insolvency environment is expected to be relatively stable in 2017, but is subject to downside risks stemming from political uncertainty.
- 7 **Table: Macroeconomic indicators for key markets**

## Global

## GDP growth picking up, but could be threatened by political uncertainty

World economic growth is forecast to increase 2.8% in 2017, compared to 2.5% in 2016. Global growth is buoyed by a strong US economy, as well as improving outlooks for many emerging market economies. That said, substantial downside risks remain. The US Federal Reserve has announced that it is highly likely to increase interest rates in its March meeting (contingent on as-strong-as-expected employment and inflation data) – sooner than widely expected. More rapid US monetary policy normalisation could hurt some emerging markets with large external vulnerabilities. Policies pursued by the new US administration in areas such as trade and migration could also negatively affect the recovery in the medium term. There is a broad trend toward populism in western democracies. Political uncertainty has risen following the Brexit decision, the election of Donald Trump and the outcome of the Italian constitutional referendum. More tests will come in 2017, as major elections will be held in a number of key European countries. The net effect of further increasing uncertainty would be negative for global GDP growth, as business investment would be postponed and international trade could slow down further.

Protectionism and anti-trade policies are a major concern amidst this political uncertainty, threatening the outlook for international trade in 2017. In 2016, the volume of global trade slowed to only 1.2%, according to the Netherlands Bureau for Economic Policy Analysis, the slowest pace since the global financial crisis. This slowdown was primarily due to lower demand for goods, but finally there have been signs of a rebound since Q4 of 2016. With stronger global GDP growth prospects, Atradius forecasts world trade to pick up to 3% in 2017. However, this forecast is subject to considerable downside risks related to protectionist politics.

Oil prices have largely stabilised, around USD 56 per barrel of Brent. This has been supported by the commitment of OPEC and 11 other oil producers to cut production. The US Energy Information Administration forecasts oil prices to level off in 2017, averaging USD 55 per barrel.

### Oil price

Brent, USD per barrel



Source: IHS

## Eurozone

Economic growth forecasts		
	2017	2018
Austria	1.4	1.5
Belgium	1.4	1.6
Finland	1.3	1.4
France	1.3	1.4
Germany	1.4	1.6
Greece	1.7	2.0
Ireland	3.4	3.0
Italy	0.8	0.9
Netherlands	2.0	1.7
Portugal	1.5	1.4
Spain	2.4	2.1
<b>Eurozone</b>	<b>1.6</b>	<b>1.5</b>

Source: Consensus Forecasts (Feb 2017)

## Eurozone: struggling south gets more breathing space

The eurozone economy is forecast to grow 1.6% in 2017 and 1.5% in 2018, supported by low oil prices, monetary easing and employment growth, while weaker investor confidence following the Brexit vote and low external demand will weigh on activity. At the same time, structural issues persist in the form of a very weak banking sector, debt overhang and low productivity growth. The upcoming elections in the Netherlands, France, Germany and possibly Italy have already made investors nervous, as is visible from raising yield spread in France and Italy. To a greater or lesser degree, most countries face a populist surge that could erode the political base of mainstream parties. In Italy, early elections have become more likely after Matteo Renzi resigned as leader of the Democratic Party in February. Facing a left-wing rebellion in his party, Renzi is likely to favour an early party leadership contest before a credible contender can step up. After this, he is likely to push for a snap election in 2017.

However, despite heightened uncertainty in the Eurozone, confidence indicators show no sign of weakening. The European Sentiment Indicator (ESI) reached a level of 108 in February, the highest since early 2011. The Purchasing Managers Index (PMI) of the Eurozone also rose to a near-six year high (56) in February.

The fault lines that divided Eurozone growth into a relatively strong North and a comparably weak South are largely disappearing this year. The biggest economy, Germany, endured headwinds in the second half of 2016 from slowing foreign demand and lower investments. This will suppress growth in 2017, which is expected to slow to 1.4%, following a 1.9% expansion in 2016. Greece is expected to emerge from recession in 2017 as sentiment is picking up and public finances are stabilising. In Spain, economic growth is likely to decelerate somewhat in 2017, as some of the tailwinds that supported the economic expansion last year (the decline in oil prices, improving financial conditions) gradually abate, but GDP expansion remains robust.

European Sentiment Index



Sources: IHS, Eurostat

Advanced Markets

Economic growth forecasts		
	2017	2018
United Kingdom	1.5	1.3
United States	2.3	2.4

Source: Consensus Forecasts (Feb 2017)

## US and UK to face diverging prospects in 2017

The US economy is forecast to expand at a solid 2.3% in 2017, supported by solid job growth and increasing wages, which sustain private consumption. Growth may be further boosted by a fiscal stimulus but it is increasingly doubtful that President Trump will get Congressional approval for his envisaged increase in public spending. In any case, with inflation reaching a near five-year high of 2.5% in January, the Federal Reserve is likely to increase rates again soon. Chair Janet Yellen announced on Friday, March 3, that if employment and inflation continue performing so well into the upcoming meeting (March 14-15), it would be appropriate to increase interest rates. This should keep economic growth from accelerating much faster or overheating.

Protectionist rhetoric is a downside risk to US economic growth, but actual policy implications remain uncertain. The current US economic recovery is one of the longest in the post-war period, which increases the statistical probability of a business cycle recession. For the time being growth is forecast to stay robust at 2.4% in 2018, supported by the strong labour market, but could be hampered by populist policies in the medium term.

In the aftermath of the Brexit vote, the UK economy has remained resilient with a 2% y-on-y growth in 2016, which is only a slight slowdown from the 2.2% expansion seen in 2015. Consumer spending has been the engine of economic expansion, supported by relatively high employment. The momentum remains strong thus far in 2017, but higher inflation due to the weak pound and increasing uncertainty surrounding negotiations with the EU will likely weigh on growth in the course of 2017. Full year growth is forecast to slow to 1.5%.

Unemployment rate



Source: IHS

## Emerging Markets

Economic growth forecasts		
	2017	2018
Asia (excl. Japan)	5.6	5.5
Latin America	1.6	2.5
Eastern Europe	2.2	2.6

*Source: Consensus Forecasts (Feb 2017)*

## Emerging markets to see reasonable growth in 2017

The outlook for emerging markets in 2017 is reasonable, although prospects remain diverse across countries and regions. Overall, emerging markets are benefiting from the upturn in commodity prices. Latin America and Eastern Europe are expected to see improving growth figures this year, as a number of key markets (Russia, Brazil, and Argentina) emerge from recession.

Emerging Asia is expected to uphold its growth rate, fuelled by high growth in India in particular, despite slowdowns in other markets. China's economy is expected to increase by 6.5% this year, down from 6.7% last year. GDP growth is expected to slow further in the medium-term as the economy is rebalancing from industry to services, with investment decelerating. A hard landing is still not likely, at least in the short-term, as the Chinese authorities have gained credibility in using monetary and fiscal policy to maintain growth within a 6% - 6.5% range. However, with debt continuing to rise rapidly and significant excess capacity in heavy industries, the risks surrounding this baseline scenario are considerable.

In Latin America, Brazil and Argentina will exit recession (0.7% and 3% GDP growth respectively) thanks to a return to orthodox and market-friendly policies. Venezuela will continue to suffer from a deep economic crisis and domestic political turmoil. Its economy is forecast to contract by 3.1% this year after a plunge of 18.6% in 2016.

In Eastern Europe, the outlook for Russia has improved due to a recovery in oil prices. GDP growth is expected to reach 1.3% in 2017 and to rise slightly to 1.6% in 2018. However, in the medium-term structural weaknesses and the negative impact of sanctions on productivity and investment will continue to weigh on growth.

President Trump's plans to boost infrastructure spending could be beneficial for countries exporting commodities, especially construction inputs like iron and steel. However, the risk of a deterioration in relations (especially between the US and Latin America) remains high, given the policies pursued by Trump in such areas as trade and migration. In addition, a monetary policy tightening cycle in the US could hurt emerging markets, particularly those countries with high external vulnerabilities.

## Credit and insolvencies

## Insolvency outlook subject to downside risks

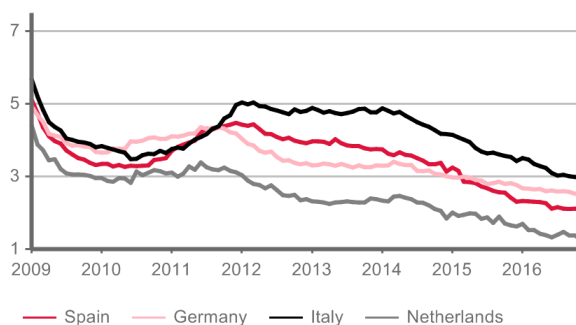
Credit standards for corporate loans in the eurozone tightened slightly in Q4 of 2016, the first tightening since Q4 of 2013. Banks have turned more risk-wary, especially as very low interest rates eat into bank profits. However, in Q1 of 2017 another net easing in credit standards is expected, supported by strengthening capital positions of most banks. Demand for loans continues to grow, supported by lower interest rates. Therefore, credit conditions should support the European business environment in 2017.

The 2017 outlook for insolvencies in the eurozone is relatively positive, but subject to exceptional downside risks. We forecast a 3% decrease in corporate bankruptcies. Insolvencies are expected to be flat in Germany, Austria and Italy. The Netherlands is forecast to see only a 3% drop in business failures after several years of double-digit declines. As more business-friendly policies in France have supported businesses there, we predict a 3% decline. However, due to the eventful political calendar for the eurozone in 2017, those forecasts may be subject to downward revisions. Depending on the outcome of the elections in the Netherlands, France, Germany and potentially Italy, policymaking directions may change to a more business-unfriendly manner, weighing on investment and employment. In this respect, a slowdown in one market could lead to a spillover into others due to close trade and investment ties.

This is also true for the UK, but it is not reflected in the forecast decrease of 8% in 2017. In Q4 of 2016, nearly 1,800 small firms were liquidated because of changes to claimable expense rules, causing overall insolvencies to grow 15% last year. Excluding these bankruptcies, the overall change was up 1%. The 2017 forecast is a statistical adjustment from the one-off high level in 2016.

A positive outlook for commodity prices is improving the insolvency outlook for many economies with large natural resource sectors. Across developed markets, this will aid businesses in the US, Norway, and Canada. This is also a positive development for many emerging markets, which depend more strongly on commodity prices. However, rising US interest rates will make financing conditions tighter for businesses across North America as well as in emerging markets.

Interest rate on short-term corporate loans



Source: IHS

March 2017

## Macroeconomic indicators for key markets

	GDP growth (% of GDP)			Budget balance (% of GDP)			Current account balance (% of GDP)			Export growth (%)			Political risk Rating <sup>1</sup>	
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018		
<b>Western markets</b>														
Austria	1.5	1.4	1.4	-0.8	-1.0	-0.7	2.7	2.5	3.0	2.0	4.1	4.5	2	POSITIVE
Belgium	1.3	1.4	1.6	-2.7	-2.6	-2.4	0.9	1.0	0.7	1.5	2.8	4.2	2	STABLE
Finland	1.2	1.3	1.3	-2.3	-2.5	-2.9	-0.7	-0.1	-0.3	1.4	4.6	3.1	2	POSITIVE
France	1.2	1.3	1.4	-3.4	-3.1	-3.0	-0.9	-1.1	-1.3	-0.5	2.7	3.6	2	STABLE
Germany	1.8	1.3	1.5	0.6	0.4	0.3	8.9	7.8	7.6	1.0	3.0	3.8	1	
Greece	0.1	1.7	1.9	-2.1	-1.8	-0.8	-0.8	-0.9	-0.8	-3.6	4.6	3.7	7	POSITIVE
Ireland	3.8	3.3	3.1	-1.5	-0.8	0.1	11.1	9.9	8.0	0.2	12.2	5.6	3	NEGATIVE
Italy	0.9	0.7	0.9	-2.4	-3.8	-2.8	2.1	1.1	1.1	0.1	2.7	3.2	4	STABLE
Netherlands	2.1	1.7	1.6	-0.3	-1.3	-1.2	8.6	11.6	16.1	-0.3	10.2	8.9	1	
Portugal	1.2	1.5	1.3	-2.5	-1.6	-1.6	0.1	-0.9	-1.0	1.1	2.6	3.1	5	POSITIVE
Spain	3.2	2.4	2.0	-4.4	-3.5	-3.1	1.7	0.8	0.7	2.3	4.5	5.3	4	POSITIVE
Eurozone	1.6	1.4	1.5	-1.7	-1.8	-1.6	3.3	3.5	3.8	2.7	2.5	2.9		
Australia	2.4	2.5	2.8	-1.6	-0.8	-0.4	-3.1	-2.7	-3.7	1.3	8.3	2.2	1	
Canada	1.3	2.0	2.0	-1.7	-1.5	-1.2	-3.2	-2.1	-2.3	-0.4	6.5	3.0	1	
Denmark	1.0	1.4	1.4	-1.5	-0.8	-1.2	7.7	7.1	6.0	-1.0	7.5	7.2	1	
Norway	0.7	1.5	1.9	2.7	4.5	5.8	3.7	1.4	1.2	4.7	5.6	4.5	1	
Sweden	3.2	2.3	2.1	0.2	-0.4	-0.1	4.7	4.8	3.9	-0.8	3.1	4.2	1	
Switzerland	1.4	1.5	1.7	0.7	-0.1	-0.1	9.7	8.0	6.9	3.4	3.3	4.2	1	
United Kingdom	2.0	1.4	1.4	-3.6	-3.4	-2.7	-4.9	-3.8	-3.4	4.4	7.0	6.3	2	STABLE
USA	1.6	2.3	2.3	-4.2	-3.6	-4.0	-2.6	-2.3	-2.2	-1.5	4.2	4.8	1	
<b>Central and Eastern Europe</b>														
Czech Republic	2.4	2.5	2.6	0.0	-1.0	-0.7	1.3	-0.7	-1.6	-0.6	6.7	4.8	3	POSITIVE
Hungary	2.0	2.9	2.9	-1.8	-2.6	-2.8	4.4	3.7	3.1	4.3	6.8	8.7	5	POSITIVE
Poland	2.7	3.0	3.2	-3.0	-3.5	-3.5	-0.8	-1.8	-2.9	5.8	4.5	6.1	3	NEGATIVE
Russia	-0.6	1.1	1.5	-3.2	-2.9	-2.1	1.9	3.3	1.1	-9.6	22.3	-3.4	5	POSITIVE
Slovakia	3.4	3.1	3.4	-2.2	-1.9	-1.5	-0.7	0.1	0.9	3.3	4.7	6.7	3	POSITIVE
Turkey	2.3	2.3	3.0	-2.1	-2.4	-2.4	-4.0	-4.8	-5.1	5.5	14.0	9.5	5	STABLE
<b>Asia</b>														
China	6.7	6.4	6.1	-4.2	-4.2	-4.0	2.5	3.0	2.9	6.5	8.6	8.1	3	STABLE
India	6.8	7.5	7.7	-6.5	-5.9	-6.2	-0.6	-1.0	-2.1	10.3	7.8	19.8	4	NEGATIVE
Japan	0.9	1.1	0.9	-3.7	-3.8	-4.0	3.9	3.9	3.7	-8.0	4.9	8.3	3	POSITIVE
<b>Latin America</b>														
Brazil	-3.5	0.7	2.3	-8.9	-7.5	-5.5	-1.3	-2.1	-2.5	5.0	6.5	9.7	5	POSITIVE
Mexico	2.3	1.4	2.0	-3.3	-2.6	-2.0	-2.6	-2.1	-2.3	10.1	1.7	1.4	4	POSITIVE

<sup>1</sup> Note: STAR is Atradius' in-house political risk rating. The STAR rating runs on a scale from 1 to 10, where 1 represents the lowest risk and 10 the highest risk. In addition to the 10-point scale there are rating modifiers associated with each scale step: 'Positive', 'Stable', and 'Negative'. These rating modifiers allow further granularity and differentiate more finely between countries in terms of risk.

Sources: Consensus Economics, IHS, National accounts, Atradius Economic Research



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